

Equities

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India Wireless

Alert: Government Giveth and SC Taketh Away

■ Industry Overview

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- **New entrants' licenses cancelled** – SC has today ruled cancelling of the 122 2G licenses issued on/after 10 Jan 08. The licensees include Uninor (22), Videocon (22), Loop (21), Sistema (21), Swan (13), Idea (9), S Tel (6), Spice (4) and Tata Tele (3). This should benefit incumbents with 1) likely traffic re-distribution, 2) lowering competition (esp Uninor, which was seeing operational improvement from its strategy of keeping low tariffs) and 3) increased uncertainty amongst new competition.
- **Details** - The ruling will become operational after four months during which time TRAI needs to make recos for grant of license and allocation of spectrum (through auction). The Govt will have one month to take a decision post this. The ruling doesn't exclude operators whose licenses have been cancelled to participate in the re-auction though it is silent on return of license fees paid by them (Rs16.5bn for a pan-India license across 22 circles). In the meantime, operators can continue business as usual and also file a review petition in the SC.
- **Who loses?** – Uninor, which was seeing operational improvement while constraining incumbents from taking further hikes (keeping tariffs at disc), is most impacted amongst new entrants. The other new entrants had done a soft launch. The nine circles of Idea contribute ~4% of revs; 1% in the case of Tata Tele. Meanwhile the ruling doesn't impact Bharti, Voda and RCOM.
- **Setting of reserve price for auction is critical as well as challenging** – Reserve price would be critical in deciding mkt structure, i.e. whether Telenor participates. Meanwhile, while market value of 2G should be lower than 3G given the lower no. of operators & higher spectrum availability, politically it may be challenging for the Govt to fix a reserve price lower than the 3G winning bid.
- **What happens next?** – Idea is likely to participate in the auction under almost any scenario. Assuming all other licensees exit and traffic gets re-distributed (bulk of new entrants' subs are dual-SIM), Bharti's, Idea's and RCOM's FY13E wireless EBITDA improves 4-7%. Idea will gain at the net level even after paying for spectrum at 3G prices. The sector would also benefit from better pricing power (Uninor should toe incumbents line given its B/S will get constrained if it decides to participate in auction/acquisition) - 1p increase in rev/min increases Bharti/Idea/RCOM's FY13E wireless EBITDA by 6-9%. Meanwhile the auction price is likely to be used for calculation of excess spectrum charges and license renewals.
- **We view these developments as structurally positive for the incumbents and sector due to 1) better pricing power (lower competition), 2) traffic re-distribution (reduction in multi-SIMs) and 3) higher visibility of 2G spectrum. Maintain Buys on Bharti, Idea and RCOM.**

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Incumbents could benefit from traffic re-distribution

Rs m	Idea	Bharti	RCOM	Comment
FY13E wireless revenues	224,114	450,643	201,480	
Incremental revenue	6,071	13,298	4,370	Traffic gets redistributed in the proportion of existing mkt share (excl the cancelled licenses)
Adjusted GR	4,371	9,707	2,797	
License fees and spectrum charges	608	1,417	336	12-15% license fees and spectrum charges
% of current wireless revenues	2.7%	3.0%	2.2%	
Incremental EBITDA (3,764	8,290	2,461	No incremental cost except license fees and spectrum charges with the revenue distribution
% of FY13E wireless EBITDA	6.7%	5.1%	4.3%	
License fees payment	17,809	-	-	Assuming 2G reserve price is 3G and spectrum is sold at the reserve price (7 circles ex Punjab and Karnataka)
Amortisation	890			20 year period
Interest	1,781			10% interest rate
Net of tax	732	5,554	1,649	
% of PAT (FY13E)	5.9%	5.5%	8.1%	

Source: Citi Investment Research and Analysis estimates

Figure 2. Statistical Abstract

Company name	RIC code	Rating	M Cap	Price (Rs)	P/E (x)		EV/EBITDA (x)	
			US\$M	2-Feb-12	FY12E	FY13E	FY12E	FY13E
Bharti	BRTI.BO	1	29,826	386	22.7	14.6	8.2	6.8
RCOM	RLCM.BO	1H	4,068	97	14.1	9.9	7.6	6.4
Idea	IDEA.BO	1	6,452	96	51.4	25.7	8.9	7.1

Source: Citi Investment Research and Analysis estimates

Appendix A-1 Analyst Certification

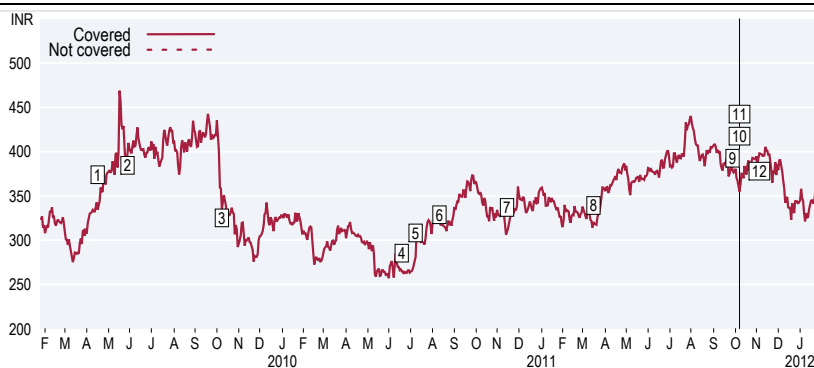
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Ratings and Target Price History Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	16-Apr-09	1L	*420.00	334.38
2	28-May-09	1L	*465.00	397.60
3	8-Oct-09	*2L	*370.00	334.65
4	18-Jun-10	2L	*303.00	264.85

* Indicates change

	Date	Rating	Target Price	Closing Price
5	8-Jul-10	2L	*300.00	280.85
6	11-Aug-10	2L	*350.00	319.70
7	15-Nov-10	*1L	*400.00	309.50
8	16-Mar-11	1L	*415.00	320.45

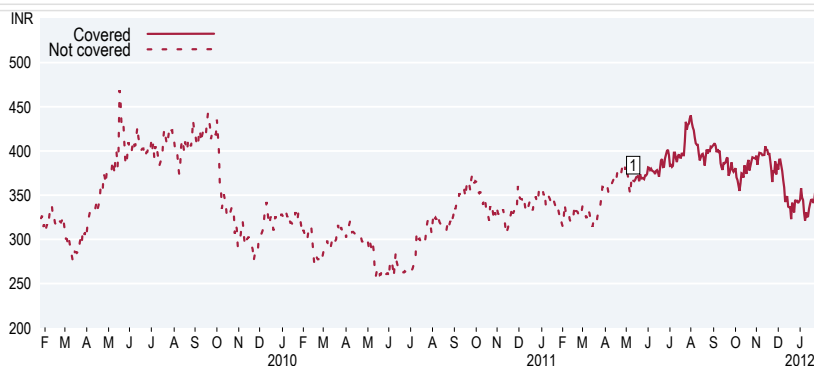
	Date	Rating	Target Price	Closing Price
9	28-Sep-11	1L	*453.00	378.75
10	7-Oct-11	Stock rating system changed		
11	7-Oct-11	*1	453.00	354.80
12	4-Nov-11	1	*452.00	397.95

Rating/target price changes above reflect Eastern Standard Time

Bharti Airtel (BRTI.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD MP	-	366.35

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

IDEA Cellular (IDEA.BO)
Ratings and Target Price History
Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	26-Apr-09	*2M	*67.00	60.55
2	28-May-09	*3M	*80.00	78.65
3	8-Oct-09	3M	*55.00	62.50
4	8-Jul-10	3M	*50.00	59.00

	Date	Rating	Target Price	Closing Price
5	22-Nov-10	3M	*72.00	71.65
6	16-Mar-11	*1M	*79.00	60.20
7	31-Jul-11	*1L	*105.00	94.35
8	28-Sep-11	1L	*120.00	98.20

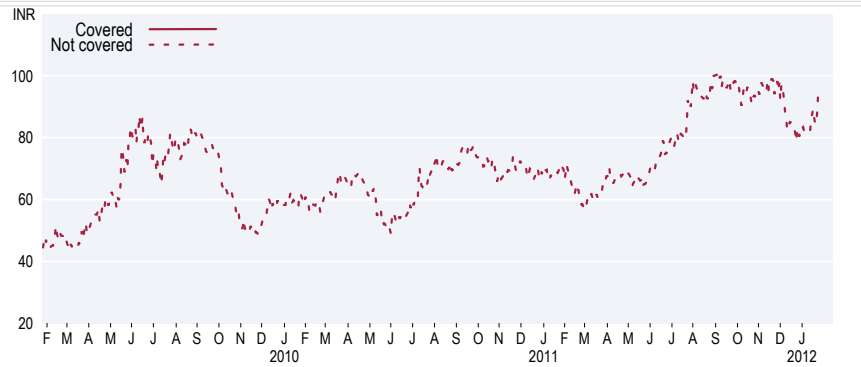
	Date	Rating	Target Price	Closing Price
9	7-Oct-11	Stock rating system changed		
10	7-Oct-11	*1	120.00	90.30
11	21-Oct-11	1	*118.00	91.40
12	13-Jan-12	1	*111.00	85.45

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

IDEA Cellular (IDEA.BO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010

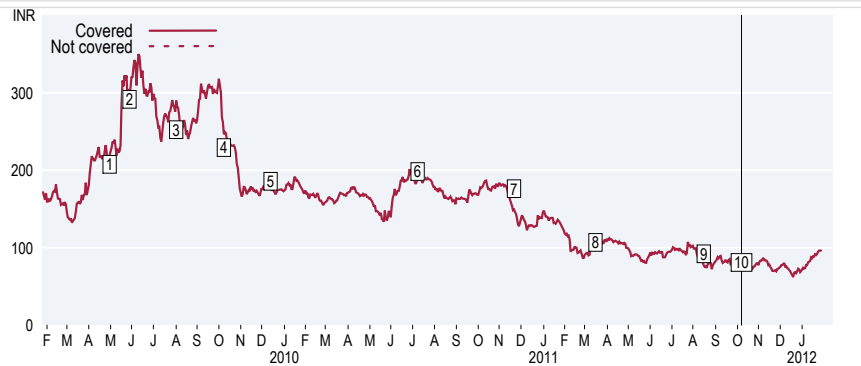


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Rating/target price changes above reflect Eastern Standard Time

Reliance Communications (RLCM.BO)
Ratings and Target Price History
Fundamental Research

Analyst: Gaurav Malhotra, CFA
Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	30-Apr-09	3H	*190.00	214.95
2	28-May-09	3H	*270.00	297.35
3	2-Aug-09	*2M	*310.00	275.65
4	8-Oct-09	*3M	*210.00	246.30

	Date	Rating	Target Price	Closing Price
5	12-Dec-09	3M	*160.00	183.65
6	8-Jul-10	3M	*165.00	187.95
7	22-Nov-10	3M	*155.00	149.30
8	16-Mar-11	*1H	*127.00	102.95

	Date	Rating	Target Price	Closing Price
9	16-Aug-11	1H	*117.00	77.40
10	7-Oct-11	Stock rating system changed		

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**Reliance Communications
(RLCM.BO)**

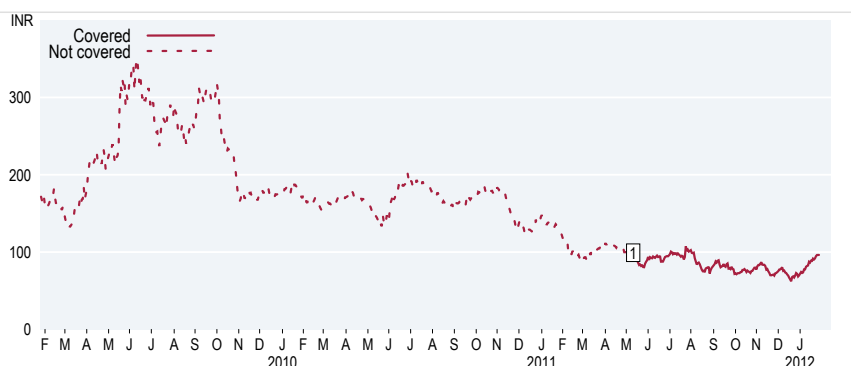
Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Gaurav Malhotra, CFA

Covered since June 18 2010



	Date	Rating	Target Price	Closing Price
1	11-May-11	*ADD LP	-	91.55

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	45%	41%	40%	49%	43%	41%

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